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**PRESTON
MINES
LIMITED**

ANNUAL REPORT 1976



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Preston

MINES LIMITED

120 Adelaide Street West

Toronto, Canada M5H 1W5

Annual Report 1976

Directors

G. R. ALBINO
President and Chief Operating Officer,
Rio Algom Limited (1), Toronto

*R. D. ARMSTRONG
Chairman and Chief Executive Officer,
Rio Algom Limited (1), Toronto

R. C. BERRY
Vice-President and General Manager,
Tinto Holdings Canada Limited (2), Toronto

*J. IAN CROOKSTON
Chairman, Nesbitt, Thomson and Company,
Limited, Investment Dealers, Toronto

*†B. R. MacKENZIE, Q.C.
Counsel to Fasken & Calvin
Barristers & Solicitors, Toronto

*W. C. PITFIELD
President, Pitfield, Mackay, Ross & Company
Limited, Investment Dealers, Toronto

* Members of the Audit Committee

† Not standing for re-election

Officers

R. D. ARMSTRONG, President
Chairman and Chief Executive Officer,
Rio Algom Limited (1), Toronto

G. R. ALBINO, Vice-President
President and Chief Operating Officer,
Rio Algom Limited (1), Toronto

J. A. SADLER, Vice-President
Vice-President, Special Projects,
Rio Algom Limited (1), Toronto

A. C. TURNER, Secretary
Vice-President, Secretary,
Rio Algom Limited (1), Toronto

J. VAN NETTEN, Treasurer
Vice-President, Treasurer,
Rio Algom Limited (1), Toronto

(1) Exploration for and mining of ores and
minerals and manufacture and distribution of
stainless and specialty steel mill products.

(2) The holding company for certain Canadian
interests of The Rio Tinto-Zinc Corporation
Limited.

ANNUAL MEETING

The Company will hold an Annual Meeting on Thursday, April 28,
1977 at 11:00 a.m. (Toronto time) in the Conference Room, 26th floor,
120 Adelaide Street West, Toronto, Canada M5H 1W5.

Directors' Report to the Shareholders:

Your Directors are pleased to submit this Report on the operations and financial position of the Company for the year ended December 31, 1976.

Net earnings for 1976 were \$13,460,761 representing \$1.52 per share compared with \$12,884,128 or \$1.54 per share in the previous year when fewer shares were outstanding on the average. The net earnings for both years are after including equity in net earnings of Rio Algom Limited of \$13,557,627 and \$12,882,057, respectively, representing the Company's 43.8% equity (43.9% in 1975) in the consolidated net earnings of that company.

The major changes in Rio Algom's earnings in 1976 compared with 1975 were increased earnings of the copper-molybdenum mine in British Columbia of Lornex Mining Corporation Ltd., which is 66.5% owned by Rio Algom, decreased earnings from uranium and steel operations, lower net interest costs and reduced income and mining taxes. For your information and with the consent of Rio Algom the Annual Report of that company for 1976 is forwarded to you with this Report.

Dividends received from Rio Algom were \$5,920,640 in both 1976 and 1975 and dividends paid by the Company were \$6,181,349 or 70 cents per share in both of those years.

The Company's Stanleigh uranium property, contiguous to properties of Rio Algom on the South Limb of the Elliot Lake uranium bearing formation, has been idle since the termination of mining in November, 1960 and the closing of the mill in January, 1961. During the operating period, which commenced in December, 1957, 4.9 million pounds of uranium oxide was produced from 2.5 million tons of ore of an average recovered grade of 1.96 pounds per ton.

These closures followed a decision by the United States Atomic Energy Commission in November, 1959 that, because of the over-supply of uranium at that time, options would not be exercised to take deliveries of uranium concentrates from Canadian suppliers after the completion of the then existing contracts which ran to 1962 and 1963. At the same time certain alternatives were made available including the transfer of contracts from one Canadian supplier to another, by amalgamation, purchase, or other arrangements, to permit producers to fulfil their contracts by the most advantageous means. Under the circumstances the residual delivery requirements under the contracts in respect of the Stanleigh mine were met by purchasing sufficient quantities of uranium oxide from Rio Algom to supplement the product available from the Stanleigh property.

A drilling program was initiated in 1967 for the purpose of assessing the potential of the Stanleigh property. A total of twelve deep holes were completed at a cost of \$592,860; all but one hole encountered mineralization. Preliminary estimates of ore reserves, capital costs and operating costs made then, and in subsequent years, indicated that the uranium price required to make the Company's property viable was significantly above prices available at the time. Although there have been subsequent major increases in costs, primarily as a result of inflation, a strong long term demand for uranium now appears to be established and this condition, together with the outlook for continuation of high world uranium prices, has increased the possibility of economic recovery of the Company's uranium deposits. Having regard to these circumstances, and in particular to the large amount of capital that would be required to reactivate the mine and

mill, the previously reported investigations to determine the possibility of economic recovery of the uranium deposits of the Company are being carried forward.

Mr. B. R. MacKenzie has reached retirement age under the Company's policy with regard to retirement and accordingly will not present himself for re-election as a Director. Mr. MacKenzie has been a Director of Preston since 1968 and has served as a Director of Rio Algom since 1963. His fellow Directors wish to record their appreciation for his most valuable services to these companies. It is intended that the vacancy on the Board of Directors will be filled by Mr. Peter H. Dean, a director of The Rio Tinto-Zinc Corporation Limited.

Toronto, Canada
February 25, 1977

On behalf of the Board

R. D. Armstrong,
President

Auditors' Report

To the Shareholders of
Preston Mines Limited:

We have examined the statement of financial position of Preston Mines Limited as at December 31, 1976 and the statements of earnings, retained earnings and contributed surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
February 25, 1977

COOPERS & LYBRAND
Chartered Accountants

Preston Mines Limited

(Incorporated under the laws of Ontario)

Statement of Financial Position December 31, 1976

	1976	1975
CURRENT ASSETS:		
Cash and short term deposits	\$ 601,514	\$ 472,703
Accounts receivable	19,067	26,414
	<u>620,581</u>	<u>499,117</u>
Less:		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	9,813	8,274
Unclaimed dividends	137,983	137,983
	<u>147,796</u>	<u>146,257</u>
WORKING CAPITAL	472,785	352,860
Investment in Rio Algom Limited		
5,920,640 common shares (note 1)	135,879,106	128,211,155
Debentures, at cost	—	477,500
Mining properties, less amortization (note 2)	2	2
Deferred development expenditure	592,860	592,860
EXCESS OF ASSETS OVER LIABILITIES	<u>\$136,944,753</u>	<u>\$129,634,377</u>
OWNERSHIP EVIDENCED BY:		
Capital stock		
Authorized:		
1,069,925 4% cumulative, redeemable, non-voting preference shares with a par value of 50 cents each		
10,000,000 common shares without par value		
Issued:		
8,830,499 common shares	\$ 37,458,519	\$ 37,458,519
Contributed surplus	24,761,473	24,730,509
Retained earnings	74,724,761	67,445,349
	<u>\$136,944,753</u>	<u>\$129,634,377</u>

Approved on behalf of the Board:

J. I. CROOKSTON, Director

R. D. ARMSTRONG, Director

Statement of Earnings, Retained Earnings and Contributed Surplus

YEAR ENDED DECEMBER 31, 1976

EARNINGS	1976	1975
Equity in net earnings of Rio Algom Limited	\$ 13,557,627	\$ 12,882,057
Excess (deficiency) of sundry income over miscellaneous expenses	(96,866)	2,071
Net earnings for the year (note 3)	<u>\$ 13,460,761</u>	<u>\$ 12,884,128</u>
Earnings per common share	<u>\$ 1.52</u>	<u>\$ 1.54</u>
 RETAINED EARNINGS		
BALANCE, beginning of year	\$ 67,445,349	\$ 60,742,570
Net earnings for the year	<u>13,460,761</u>	<u>12,884,128</u>
	80,906,110	73,626,698
Dividends paid on common shares at the rate of \$0.70 per share	<u>6,181,349</u>	<u>6,181,349</u>
BALANCE, end of year	<u>\$ 74,724,761</u>	<u>\$ 67,445,349</u>
 CONTRIBUTED SURPLUS		
BALANCE, beginning of year	\$ 24,730,509	\$ 24,993,673
Add or (deduct):		
Expense of common share capital issue	—	(129,922)
Equity in increase or (decrease) in contributed surplus of Rio Algom ...	<u>30,964</u>	<u>(133,242)</u>
BALANCE, end of year	<u>\$ 24,761,473</u>	<u>\$ 24,730,509</u>

Statement of Changes in Financial Position

YEAR ENDED DECEMBER 31, 1976

SOURCE OF FUNDS:	1976	1975
Dividends from Rio Algom Limited	\$ 5,920,640	\$ 5,920,640
Excess (deficiency) of sundry income over miscellaneous expenses	(96,866)	2,071
Add charge not affecting working capital —		
Loss on sale of Rio Algom debentures	23,875	—
	5,847,649	5,922,711
Proceeds from sale of Rio Algom debentures	453,625	—
Issue of common shares (net of issue expenses)	—	10,417,612
	<u>6,301,274</u>	<u>16,340,323</u>
DISPOSITION OF FUNDS:		
Dividends on common shares	6,181,349	6,181,349
Investment in 538,240 common shares of Rio Algom	—	11,303,040
	<u>6,181,349</u>	<u>17,484,389</u>
INCREASE (DECREASE) IN WORKING CAPITAL	119,925	(1,144,066)
WORKING CAPITAL, beginning of year	352,860	1,496,926
WORKING CAPITAL, end of year	<u>\$ 472,785</u>	<u>\$ 352,860</u>

Notes to Financial Statements

DECEMBER 31, 1976

1. INVESTMENT IN RIO ALGOM LIMITED

The Company's investment in common shares of Rio Algom Limited represents 43.8% (43.9% in 1975) of the issued common shares of Rio Algom and is carried on the equity accounting basis. The cost of the Company's investment exceeded its equity in the net assets of Rio Algom at date of acquisition by \$11,221,004 and this excess has been written off to retained earnings.

2. PLANT AND EQUIPMENT CONSISTS OF:

	1976	1975
Buildings, machinery and equipment, at cost	\$8,974,073	\$9,077,486
Less accumulated depreciation	8,974,073	9,077,486
	<u>\$ —</u>	<u>\$ —</u>
Mining properties consist of:		
Mining properties, at cost	\$ 569,789	\$ 569,789
Less accumulated amortization	569,787	569,787
	<u>\$ 2</u>	<u>\$ 2</u>

3. INCOME AND MINING TAXES

Because of the exemptions and deductions permitted for tax purposes, it is estimated that the Company has no liability for income or mining taxes for the year.

4. ANTI-INFLATION ACT

The Company is subject to regulatory controls of dividends under the Canadian Government's Anti-Inflation Act and Regulations which became effective October 14, 1975.

5. UNAUDITED QUARTERLY RESULTS

The quarterly equity in net earnings of Rio Algom Limited, net earnings and earnings per share as previously reported in unaudited quarterly reports to shareholders are set forth in the following table (dollars in millions, except per share):

1976			
Quarter Ended	Equity in Net Earnings of Rio Algom	Net Earnings	Earnings Per Share
Mar. 31	\$ 3.2	\$ 3.1	\$ 0.35
June 30	3.8	3.8	0.44
Sept. 30	3.4	3.4	0.38
Dec. 31	3.2	3.2	0.35
Year	<u>\$13.6</u>	<u>\$13.5</u>	<u>\$ 1.52</u>

6. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

During the year ended December 31, 1976 the aggregate direct remuneration paid or payable by the Company to the Directors and Senior Officers of the Company was \$7,347.

Supplementary Information

Five Year Review

(\$000's omitted)

	1976	1975	1974	1973	1972
Equity in net earnings of Rio Algom Limited	\$ 13,558	\$ 12,882	\$ 19,018	\$ 22,697	\$ 6,815
Excess (deficiency) of sundry income over miscellaneous expenses	(97)	2	226	175	68
NET EARNINGS FOR THE YEAR	\$ 13,461	\$ 12,884	\$ 19,244	\$ 22,872	\$ 6,883
Earnings per share	\$ 1.52	\$ 1.54	\$ 2.45	\$ 2.91	\$ 0.88
Dividends paid (\$000's)	\$ 6,181	\$ 6,181	\$ 5,495	\$ 3,846	\$ 2,198
Per share of common stock	70¢	70¢	70¢	49¢	28¢
Common shares outstanding (000's)	8,830	8,830	7,849	7,849	7,849
Number of shareholders	3,100	3,400	3,400	3,500	3,600

Price Range of Common Shares and Dividends Paid

The following table shows the high and low prices for Preston Common Shares on The Toronto Stock Exchange and the dividends paid on these shares by the Company.

	1976	1975
First Quarter	\$17 4/8 – 14 2/8	\$14 – 9 6/8
Second Quarter	16 5/8 – 15	16 1/8 – 11 3/8
Third Quarter	18 – 15 2/8	14 7/8 – 12 4/8
Fourth Quarter	15 2/8 – 12 6/8	14 4/8 – 12

Dividends paid per share: July 31, 1975 – 35¢; December 31, 1975 – 35¢.
June 30, 1976 – 35¢; December 31, 1976 – 35¢.

Preston Mines Limited

Miscellaneous Corporate Information

Head Office

120 Adelaide Street West, Toronto, Canada M5H 1W5

Auditors

Coopers & Lybrand, Chartered Accountants Toronto, Ontario

Transfer Agents

Common Shares

Canada Permanent Trust Company Toronto, Ontario

The Canadian Bank of Commerce Trust Company New York, N.Y.

Common Shares Listed

Toronto Stock Exchange Toronto, Ontario

American Stock Exchange New York, N.Y.

Form 10-K Annual Report

The Company's Form 10-K annual report for 1976
to the United States Securities and Exchange
Commission will be available on written
request to the Secretary of the Company.



PRESTON MINES LIMITED

STATEMENT OF CHANGES IN
FINANCIAL POSITION

for the six months ended June 30, 1976
(000's omitted)

	1976	1975
Source of Funds:		
Net earnings (loss) before equity in net earnings of Rio Algom Limited	\$ (52)	\$ 10
Dividends from Rio Algom Limited	2,960	2,960
	<u>2,908</u>	<u>2,970</u>
Disposition of Funds:		
Dividends on common shares	<u>3,090</u>	<u>3,090</u>
Decrease in working capital	(182)	(120)
Working capital, beginning of year	<u>353</u>	<u>1,497</u>
Working capital, end of period	<u><u>\$ 171</u></u>	<u><u>\$ 1,377</u></u>

Preston Mines Limited

Interim Report to the Shareholders
For the six months ended June 30, 1976

TO THE SHAREHOLDERS:

Net earnings for the first six months of 1976 were \$6,963,000 compared to \$6,718,000 for the same period in 1975. The comparative net earnings per common share were \$0.79 and \$0.86 respectively. The earnings per share are based on the average number of shares outstanding during the respective periods; 981,166 common shares were issued in July, 1975 under a rights offering and this is the reason earnings per share show a decline in 1976.

The increase in 1976 earnings as compared to 1975 was due to the increased earnings of Rio Algom Limited. Rio Algom's net earnings were \$16,355,000 and \$15,627,000 for the six months ended June 30, 1976 and June 30, 1975 respectively and Preston's 43.8% equity (43.9% in 1975) therein was \$7,015,000 in 1976 and \$6,708,000 in 1975.

The Company's major asset continues to be its investment in Rio Algom. Rio Algom's earnings before taxes were lower in the first half of 1976 than for the same period in 1975 due to lower earnings from uranium mining and steel operations partly offset by higher earnings at the company's majority-owned Lornex copper-molybdenum mine. However, Rio Algom's net earnings were slightly higher due to a substantial reduction in taxes, resulting largely from lower earnings in uranium mining and steel operations, the effect, under the graduated Ontario mining tax rates, of lower earnings and higher capital expenditures in uranium mining operations for the first six months of 1976, and to some extent the repeal of the British Columbia Mineral Royalties Act.

Earnings at Rio Algom's Lornex mine increased due to improved copper prices and increased production. Uranium earnings were lower due to slightly lower ore grades and escalating costs. Steel earnings were considerably lower due to rising costs, depressed market conditions and a two-month strike, which ended May 2, 1976, at the Tracy plant of Atlas Steels.

Toronto, Canada
July 29, 1976.

R. D. ARMSTRONG
President

PRESTON MINES LIMITED

STATEMENT OF EARNINGS

*for the six months ended June 30, 1976
(000's omitted)*

	1976	1975
Revenue:		
Proceeds from sales of plant and equipment	\$ 8	\$ 37
Less cost of reconditioning equipment sold	1	15
	7	22
Investment and other income	40	78
	47	100
Expense:		
Idle mine expense	23	23
Administrative and general expenses	76	67
	99	90
Operating profit (loss) for the period	(52)	10
Equity in net earnings of Rio Algom Limited for the period	7,015	6,708
Net earnings for the period	\$ 6,963	\$ 6,718
Earnings per common share		
— Operating profit (loss)	\$ (0.01)	\$ —
— Net earnings for the period	\$ 0.79	\$ 0.86

Approved on behalf of the Board:

R. D. Armstrong, Director
G. R. Albino, Director

Subject to year-end audit and adjustments.